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STATE FOR EAP/CM AND EEB/OMA, TREASURY FOR OASIA

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SUBJECT: Hang Seng Plummets 12.7 percent, Largest Drop Since 1989

¶1. The Hang Seng Index plummeted as much as 15 percent to a low of 10,685 before recovering slightly to finish the day down 1602.54 points, or 12.7 percent, at 11,015.84. This marked the largest single-day drop since the Tiananmen Incident in 1989. No one was spared, but Chinese corporate stocks in every sector took the worst beating. ICBC fell 11 percent, Aluminum Corp of China (Chalco) dropped 20 percent and Citic Pacific plunged 24 percent as investors sought help from Hong Kong Legislative Council members to claim compensation for that company's US\$2 billion loss on currency derivatives. HSBC shares were also down sharply. Analysts said that wide-spread pessimism about an economic recovery, combined with the slide in Japan's Nikkei, dropping NYSE futures markets, and worse than predicted profit announcements by ICBC and Chalco, drove the market down.

¶2. Interbank liquidity tightened for overnight and borrowing exceeding one month. HIBOR on Monday, October 27, rose to 1 percent for overnight, 2 percent for one week, 2.75 percent for two weeks, 3.8 percent for one month, 4.05 percent for two months, 4.15 percent for three and six month borrowing and 4.1 percent for 12 month loans. That compares to 0.8 percent for overnight loans and 3.6 percent for one, two, three and six month borrowing on Friday.

¶3. A better than expected Hong Kong trade report could not reverse the slide in equities. September exports increased 3.6 percent, up from a 1.9 percent increase in August. But third quarter exports fell by 5.7 percent compared to last year. Exports of machinery and electronics to China and the region were down, suggesting further slowing of trade in the months ahead. Imports for the month were up 3.9 percent, up from August's 1.5 percent growth.